ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial information and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the Securities and Exchange Commission, or SEC, on March 17, 2022. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth under "Risk Factors" in our Annual Report on Form 10-K, our actual results could differ materially from the results described in or implied by the "Cautionary Note Regarding Forward-Looking Statements" contained in our Quarterly Report on Form 10-Q and in the following discussion and analysis.

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of TerrAscend is for the three months ended March 31, 2022 and 2021 and the accompanying notes for each respective period.

Business Overview

TerrAscend is a leading North American cannabis operator with vertically integrated operations in Pennsylvania, New Jersey, and California, licensed cultivation and processing operations in Michigan and Maryland, and licensed processing operations in Canada. TerrAscend operates a chain of Apothecarium dispensary retail locations, as well as scaled cultivation, processing, and manufacturing facilities on both the east and west coasts of the United States. TerrAscend's cultivation and manufacturing practices yield consistent, high-quality cannabis, providing industry-leading product selection to both the medical and legal adult-use market. Notwithstanding various states in the US which have implemented medical marijuana laws, or which have otherwise legalized the use of cannabis, the use of cannabis remains illegal under US federal law for any purpose, by way of the CSA

TerrAscend operates under one operating segment being the cultivation, production and sale of cannabis products.

TerrAscend's portfolio of operating businesses and brands include:

- Gage Growth Corp. ("Gage"), a cultivator and processor in Michigan
- Ilera Healthcare, a vertically integrated cannabis cultivator, processor and dispensary operator in Pennsylvania;
- TerrAscend NJ LLC, a majority owned subsidiary that holds a permit to operate up to three alternative treatment centers in New Jersey with the ability to cultivate and process;
- The Apothecarium, consisting of retail dispensaries in California, Pennsylvania and New Jersey;
- Valhalla Confections, a provider of premium edible products;
- State Flower, a California-based cannabis producer operating a licensed cultivation facility in San Francisco, California;
- HMS Health, LLC and HMS Processing, LLC, a producer and seller of dried flower and oil products for the wholesale medical cannabis market in Maryland;
- TerrAscend Canada Inc., a Licensed Producer (as such term is defined in the Cannabis Act) of cannabis, with its current principal business activities including processing and sale of cannabis flower and oil products in Canada;
- Cookies Canada, the operator of a minority owned retail cannabis dispensary in Toronto, Canada; and
- Arise Bioscience, a manufacturer and distributor of hemp-derived products, located in Boca Raton, Florida.

Results from Operations- Three months ended March 31, 2022 and March 31, 2021

The following tables represent the Company's results from operations for the three months ended March 31, 2022 and 2021.

Revenue, net

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Revenue	$ 50,445	$ 56,496
Excise and cultivation taxes	(786)	(3,142)
Revenue, net	**$ 49,659**	**$ 53,354**
$ change	$ (3,695)	
% change	-7%	

The decrease in net revenue at March 31, 2022 as compared to March 31, 2021 was due to a decrease in wholesale revenue of $14,443 from $38,384 for the three months ended March 31, 2021 to $23,941 for the three months ended March 31, 2022. This reduction in wholesale revenue was mainly related to a reset of the Company's cultivation facility in Pennsylvania and a recall by the Pennsylvania Department of Health of certain vape products produced by the Company. On February 4, 2022, more than 500 vape products were recalled by the Pennsylvania's Department of Health, including several of the Company's SKUs. As a result of the recall, the Company recorded sales returns of $1,040 during the three months ended March 31, 2022. In addition, the Company continued its intentional accumulation of inventory in New Jersey, versus selling wholesale, in preparation for adult use sales.

This decrease is partially offset by an increase of $10,748 in retail sales from $14,970 for the three months ended March 31, 2021 to $25,718 for the three months ended March 31, 2022 which is primarily a result of the increase in retail dispensaries across Pennsylvania, California, and New Jersey, as well as the acquisition of Gage (the "Gage Acquisition") in Michigan in March 2022. Retail dispensaries increased from nine in the first quarter of 2021 to twenty-five during the first quarter of 2022.

Cost of Sales

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Cost of sales	$ 33,446	$ 17,828
Impairment and write downs of inventory	1,073	584
Total cost of sales	**$ 34,519**	**$ 18,412**
$ change	$ 16,107	
% change	87%	
Cost of sales as a % of revenue	70%	35%

The increase in cost of sales, as well as cost of sales as a percentage of revenue, for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021 was driven mainly by lower volumes in Pennsylvania leading to under-absorption, primarily related to lower wholesale flower sales, as well as the aforementioned vape recall.

As a result of the recall, the Company wrote off $854 of inventory. In addition, management wrote down its inventory by $219 and $584 for the three months ended March 31, 2022 and 2021, respectively, related to inventory that it deemed unsaleable.

General and Administrative Expense (G&A)

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
General and administrative expense	$ 22,552	$ 20,392
$ change	$ 2,160	
% change	11%	
G&A excluding share-based compensation	$ 19,196	$ 16,825
G&A excluding share-based compensation as a % of revenue	39%	32%

The increase in G&A expenses was primarily a result of increased salaries and wages of $1,637 and sales and marketing expense of $605, which is primarily a result of the Gage Acquisition in March 2022.

Amortization and Depreciation Expense

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Amortization and depreciation	$ 2,618	$ 1,873
$ change	$ 745	
% change	40%	

The increase in amortization and depreciation expense for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021 is primarily due to the Gage Acquisition during March 2022 as the Company recorded additional definite lived intangible assets of $130,519.

Revaluation of contingent consideration

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Revaluation of contingent consideration	$ 119	$ 2,997
$ change	$ (2,878)	
% change	-96%	

The decrease in the revaluation of contingent consideration for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021 is a result of a reduction in the liability as compared to March 31, 2021 due to payments for the earnout of Ilera of $29,668, and State Flower of $6,954 made subsequent to March 31, 2021, reducing the amount outstanding. This decrease is partially offset by the accretion of the contingent consideration payable for KCR, which are recorded at the present value of future payments upon initial recognition.

(Gain) loss on fair value of warrants and purchase option derivative asset

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
(Gain) loss on fair value of warrants and purchase option derivative asset	$ (5,713)	$ 5,410
$ change	$ (11,123)	
% change	-206%	

The Preferred Share warrant liability has been remeasured to fair value at March 31, 2022 using the Black Scholes model. The Company recognized a gain during the three months ended March 31, 2022 as a result of the reduction of the Company's share price from December 31, 2021 as compared to March 31, 2022, as well as from warrants exercised during the three months ended March 31, 2022. The combined impact resulted in a gain on fair value of warrants of $7,208. Additionally, the Company remeasured the warrant liability acquired through the Gage Acquisition at March 31, 2022 using the Black Scholes model. The Company recognized a loss of $3,864 during the three months ended March 31, 2022 as a result of the increase in the Company's stock price at the acquisition date of March 10, 2022, as compared to March 31, 2022.

During the three months ended March 31, 2021, the Company recognized a loss on fair value of warrants of $5,410 as a result of the increase in the Company's share price from December 31, 2020 to March 31, 2021.

For the three months ended March 31, 2022, the purchase option derivative asset related to the option to purchase an additional 6.25% ownership of the Company's New Jersey partnership, was remeasured using the Monte Carlo simulation model and resulted in a loss of $318.

Finance and other expenses

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Finance and other expenses	$ 6,856	$ 6,390
$ change	$ 466	
% change	7%	

The increase in finance expense in the current period is primarily due to interest expense recognized on the loans acquired as part of the Gage Acquisition during March 2022.

Transaction and restructuring costs

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Transaction and restructuring costs	$ 615	$ -
$ change	$ 615	
% change	100%	

The increase in transaction and restructuring costs for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021 was primarily due to the Gage Acquisition.

Unrealized and realized foreign exchange loss

	For the Three Months Ended			
	March 31, 2022		March 31, 2021	
Unrealized and realized foreign exchange loss	$	356	$	2,783
$ change	$	(2,427)		
% change		-87%		

The decrease in unrealized foreign exchange loss is a result of the remeasurement of USD denominated cash and other assets recorded in C$ functional currency at the Company's Canadian operations.

Provision for income taxes

	For the Three Months Ended			
	March 31, 2022		March 31, 2021	
Provision for income taxes	$	3,743	$	9,436
$ change	$	(5,693)		
% change		-60%		

The decrease in provision for income taxes was due to the decline in revenue and associated decline in gross profit, mainly related to the reset of the Pennsylvania facility and the vape recall by the Pennsylvania Department of Health.

Liquidity and Capital Resources

	March 31, 2022 $	December 31, 2021 $
Cash and cash equivalents	88,407	79,642
Current assets	187,135	143,221
Non-current assets	849,266	438,713
Current liabilities	148,266	70,362
Non-current liabilities	362,896	282,618
Working capital	38,869	72,859
Total shareholders' equity	525,239	228,954

The calculation of working capital provides additional information and is not defined under GAAP. The Company defines working capital as current assets less current liabilities. This measure should not be considered in isolation or as a substitute for any standardized measure under GAAP.

At March 31, 2022, TerrAscend had cash and cash equivalents of $88,407, which is sufficient to fund the Company's ongoing operations. Any additional future requirements will be funded through the following sources of capital:

- Cash from ongoing operations
- Market offerings
- Debt - the Company may seek to obtain additional debt from additional creditors.
- Sale leaseback - the Company may seek to sell and lease back its capital properties.
- Exercise of options and warrants - the Company would receive funds from exercise of options and warrants from the holders of such securities in the event they are exercised.

For additional information regarding regulatory and legal risks, please see Item 1A – "*Risk Factors*" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, which was filed on March 17, 2022.

The Company's objective with respect to its capital management is to ensure it has sufficient cash resources to maintain its ongoing operations and finance its research and development activities, corporate and administration expenses, working capital and overall capital expenditures. Since inception, the Company has primarily financed its liquidity needs through the issuance of shares and utilization of borrowings.

The Company has $280,332 in principal amounts of loans payable at March 31, 2022. Of this amount, $59,490 are due within the next twelve months. The Company has entered into operating leases for certain premises and offices for which it owes monthly lease payments.

In addition, the Company's undiscounted contingent consideration payable is $10,820 at March 31, 2022. The contingent consideration payable relates to the Company's business acquisitions of The Apothecarium, State Flower, and KCR. Contingent consideration is based upon the potential earnout of the underlying business unit and is measured at fair value using a projection model for the business and the formulaic structure for determining the consideration under the agreement. The contingent consideration is revalued at the end of each reporting period.

The Company expects that its cash on hand and cash flows from operations, along with financing transactions, will be adequate to meet its capital requirements and operational needs for at least the next 12 months.

Cash Flows

Cash flows from operating activities

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Net cash (used in) provided by operating activities	$ (18,847)	$ 6,212

The increase in cash used in operating activities for the three months ended March 31, 2022 is primarily due to an increase in loss from operations to $10,030 from a profit of $12,677 in the prior year period, as well as a $5,276 increase in changes in working capital items.

Cash flows from investing activities

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Net cash provided by (used in) investing activities	$ 13,913	$ (12,885)

The net cash provided by investing activities for the three months ended March 31, 2022 primarily relates to the cash acquired through the Gage Acquisition of $24,716. The cash provided by investing activities is offset by investments in property and equipment of $4,193 primarily related to the buildout of a cultivation site in Maryland, continuing renovations at the Company's Pennsylvania cultivation site, as well as the continued buildout of the Company's Lodi alternative treatment center in New Jersey.

In comparison, the cash outflow from investing activities during the three months ended March 31, 2021 was primarily related to investments in property and equipment of $8,311 related to the buildout of the New Jersey operations and expansions in Pennsylvania cultivation and deposits of $4,826 paid for expansion of the cultivation premises in Pennsylvania.

Cash flows from financing activities

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Net cash provided by financing activities	$ 17,068	$ 183,252

During the three months ended March 31, 2022, 7,989,436 Common Share warrants were exercised for total proceeds of $23,330 and 68,215 stock options were exercised at $1.93-$5.21 (C$2.42-$6.53) per unit for total gross proceeds of $192. The cash provided by financing activities was offset by payments of contingent consideration related to the acquisition of State Flower of $6,630.

Net cash provided by financing activities for the three months ended March 31, 2021, was mainly the result of the private placement on January 28, 2021, in which the Company issued 18,115,656 Common Shares at a price of $9.64 (C$12.35) per Common Share for total proceeds of $173,477, net of share issuance costs of $1,643. Additionally, during the three months ended March 31, 2021, 1,486,075 Common Share warrants were exercised for total proceeds of $3,854 and 381,820 stock options were exercised at $0.67-$6.34 (C$0.85-$8.09) per unit for total gross proceeds of $1,499. In addition, 1,570 preferred share warrants were exercised at $3,000 per unit for total gross proceeds of $3,735.

Reconciliation of Non-GAAP Measures

In addition to reporting the financial results in accordance with GAAP, the Company reports certain financial results that differ from what is reported under GAAP. Non-GAAP measures used by management do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. The Company believes that certain investors and analysts use these measures to measure a company's ability to meet other payment obligations or as a common measurement to value companies in the cannabis industry, and the Company calculates Adjusted EBITDA as EBITDA adjusted for material non-cash items and certain other adjustments management believes are not reflective of the ongoing operations and performance. Such information is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The Company believes this definition is a useful measure to assess the performance of the Company as it provides more meaningful operating results by excluding the effects of expenses that are not reflective of the Company's underlying business performance and other one-time non-recurring expenses.

The table below reconciles net loss to EBITDA and Adjusted EBITDA for the three months ended March 31, 2022 and 2021.

		For the Three Months Ended	
	Notes	**March 31, 2022**	**March 31, 2021**
Net loss		$ (16,006)	$ (14,111)
Add (deduct) the impact of:			
Provision for income taxes		3,743	9,436
Finance expenses		6,698	5,359
Amortization and depreciation		5,085	3,521
EBITDA	(a)	**(480)**	**4,205**
Add (deduct) the impact of:			
Relief of fair value upon acquisition	(b)	1,806	—
Vape recall	(c)	1,894	—
Share-based compensation	(d)	3,356	3,567
Revaluation of contingent consideration	(e)	119	2,997
Legal settlements	(f)	—	1,381
Other one-time items	(g)	1,974	262
(Gain) loss on fair value of warrants and purchase option derivative asset	(h)	(5,713)	5,410
Indemnification asset release	(i)	(25)	1,197
Unrealized and realized loss (gain) on investments	(j)	-	(228)
Unrealized and realized foreign exchange loss	(k)	356	2,783
Adjusted EBITDA		**$ 3,287**	**$ 21,574**

(a) EBITDA is a non-GAAP measure and is calculated as earnings before interest, tax, depreciation and amortization.
(b) In connection with the Company's acquisitions, inventory was acquired at fair value, which included a markup or markdown for profit. Recording inventory at fair value in purchase accounting has the effect of increasing or decreasing inventory and thereby increasing or decreasing cost of sales as compared to the amounts the Company would have recognized if the inventory was sold through at cost. The write-up or down of acquired inventory represents the incremental cost of sales that were recorded during purchase accounting.
(c) On February 4, 2022, more than 500 vape products were recalled by the Pennsylvania's Department of Health, including several of the Company's SKUs. As a result of the recall the Company recorded sales returns of $1,040 and wrote off $854 of inventory.
(d) Represents non-cash share-based compensation expense.
(e) Represents the revaluation of the Company’s contingent consideration liabilities.
(f) Represents one-time legal settlement charges.
(g) Includes one-time fees incurred in connection with the Company’s acquisitions, such as expenses related to professional fees, consulting, legal and accounting, that would otherwise not have been incurred. In addition, includes one-time charges for work completed in preparation of becoming a US filer. These fees are not indicative of the Company’s ongoing costs.
(h) Represents the (gain) loss on fair value of warrants, including effects of the foreign exchange of the US denominated preferred share warrants, as well as the revaluation of the fair value of the purchase option derivative asset.
(i) Represents the reduction to the indemnification asset related to the Apothecarium tax audit settlement and statute expirations for tax years ended September 30, 2014 and September 30, 2015.
(j) Represents unrealized and realized loss (gain) on fair value changes on strategic investments.
(k) Represents the remeasurement of USD denominated cash and other assets recorded in C$ functional currency.

The decrease in Adjusted EBITDA for the three months ended March 31, 2022 compared to the three months ended March 31, 2021 was primarily due to lower volume and resulting gross margin compression in Pennsylvania related to the reset of the facility and associated reduction in the wholesale business.

Pending and Subsequent Transactions

On April 8, 2022, the Company entered into a definitive agreement to acquire Allegany Medical Marijuana Dispensary ("AMMD"), a medical dispensary in Maryland from Moose Curve Holdings, LLC. Under the terms of the agreement, the Company will acquire 100% equity interest in AMMD for total consideration of $10,000 in cash, in addition to acquiring the real estate for $1,700. The transaction is subject to customary closing conditions and regulatory approvals. The Company intends to rebrand the 8,000 square foot dispensary as The Apothecarium.

On April 14, 2022, the Company entered into a definitive agreement to acquire KISA Enterprises MI, LLC and KISA Holdings, LLC ("Pinnacle"), a dispensary operator in Michigan, and related real estate, for total consideration of $28,500. The transaction includes six retail dispensary licenses, five of which are currently operational and located in the cities of Addison, Buchanan, Camden, Edmore, and Morenci. The Company intends to rebrand each of the dispensaries under either the Gage or Cookies retail brand.

Changes in or Adoption of Accounting Principles

Information regarding the Company's adoption of new accounting and reporting standards is discussed in Note 2 to the accompanying condensed consolidated financial statements.

Descriptions of the recently issued and adopted accounting principles are included in Item 1. "Financial Statements" in Note 1, Summary of Significant Accounting Policies, to the Condensed Consolidated Financial Statements.

Critical Accounting Policies and Estimates

The condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. The Company bases its estimates on historical experience and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and actual results, the Company's future financial statements will be affected. There have been no significant changes to the critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation," included in the Annual Report on Form 10-K for the year ended December 31, 2021, which was filed on March 17, 2022.

Emerging Growth Company Status

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that the Company (i) is no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, the condensed consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

The Company will remain an emerging growth company until the earlier to occur of: (i) the last day of the fiscal year (a) following the fifth anniversary of the completion of the IPO, (b) in which we have total annual gross revenue of $1.07 billion or more, or (c) in which the Company is deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700.0 million as of the prior June 30th; and (ii) the date on which the Company has issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in the Company's primary risk exposures or management of market risks from those disclosed in its Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Executive Chairman and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Executive Chairman and Chief Financial Officer concluded that, as of March 31, 2022 our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Executive Chairman and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting